Amendment of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act

489. SHRI DHARAM PAL SABHARWAL: Will the Minister of FINANCE be pleased to state:

(a) whether Government propose to amend the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, which has already got diluted after a court verdict, to further strengthen laws for early recovery of non-performing assets worth over 60,000 crores;

(b) if so, the salient feature of the proposed amendment; and

(c) the details of the other measures, if any, to stop parking of excess funds of Banks in Government and RIDF bonds etc. and to step up investment of these funds in infrastructure and priority sectors particularly small and medium enterprises?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) Yes, Sir. The Enforcement of Security Interest and Recovery of Debt Laws (Amendment) Ordinance 2004 has been issued on 11.11.2004 to amend the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

(b) The amendments carried out in the Act are as under:—

(i) The secured creditor will be able to take possession of the secured asset only after reasons for not accepting objections of the borrower have been communicated to him in writing.

(ii) After possession of the secured assets has been taken, the borrower can file an application before the DRT without any deposit.

(iii) After the disposal of the case by the DRT, the borrower, if aggrieved, can apply to the DRAT with a deposit of 50% of the decreed amount which can be reduced by the DRAT to 25%.

(iv) Provide for taking over of management of the business of the borrower under section 13(4).

(v) Confer power upon the Appellate Tribunal to transfer all pending applications before different DRTs to one DRT.

(vi) Empower RBI to call for periodic returns and information from Securitisation Companies and Asset Reconstruction Companies.

(c) IDBI, IDFC, ICICI Bank, SBI, LIC, Bank of Barodaand Punjab National Bank have formed an Inter-Institutional Group (IIG). They will pool their resources on a callable basis, and a sum of Rs. 40,000 crore will be made available, as and when necessary. The IIG will ensure speedy conclusion of loan agreements and implementation of infrastructure projects. SIDBI has been advised to structure Small and Medium Enterprises Fund with a corpus of Rs. 10,000 crore. Loans are beign extended to SMEs through SIDBI's own offices and by way of providing refinance to the primary lending institutions. Refinance to SFCs is available in the interest rate band of 7.5% to 8%. The SME Fund provides for routing of assistance, besides SFCs, through commercial banks as well. For the smooth operations of the Fund, the Government of India have approved the limit of investment in plant and machinery above Rs. 1 crore and upto Rs. 10 crore for a unit to qualify as the medium enterprise.

M/s. Home Trade scam

490. SHRI NILOTPAL BASU: Will the Miniter of FINANCE be pleased to state:

(a) whether it is a fact that Oriental Bank of Commerce has taken over the assets and liabilities of Global Trust Bank;

(b) if so, the financial details and reasons for the take over arising thereof;

(c) whether it is also a fact that a substantial amount of money of the Siemens Provident Fund had been eroded due to scam in malafide investment by M/s Home Trade; and

(d) if so, whether Government are reimbursing the financial loss to the SPF?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) Yes, Sir.

(b) Financial details of erstwhile Global Trust Bank as per their balance sheet are as under:

(Rs. in crores)

Particulars	31.3.2003
Paid up capital	121.35
Reserves	146.16

Total Assets	7665.99
Net Worth	2.42
Deposits	6920.91
Advances	3276.10
Investments	2645.28
Operating Profit (+)/Loss (-)	36.44
Net Profit/Loss	(-) 272.69

The reasons for amalgamation of GTB with Oriental Bank of Commerce were as under:—

(i) The financial health of Global Trust Bank (GTB) was causing concern to Reserve Bank of India (RBI) since March, 2001.

(ii) The RBI inspection revealed wide variance with the balance sheet figures published by the bank.

(iii) Erosion of capital of the bank, RBI directed the bank to infuse capital so as to achieve a CRAR OF 9%.

(iv) GTB failed to locate a domestic investor who could infuse the requisite capital.

(v) This was done to protect the interest of the depositors of GTB.

(vi) To safeguard public faith in banking industry.

(c) and (d) the information is being collected and will be laid on the Table of the House to the extent possible.

Financial deficit

† 491. SHRI ABU ASIM AZMI: Will the Minister of FINANCE be pleased to state:

(a) whether financial deficit is likely to increase if the duty is reduced to check the inflation rate by Government;

(b) if so, the steps taken by Government to control this deficit; and

(c) whether International Monetary Fund has warned India regarding increase in financial deficit?

† Original notice of the question was received in Hindi.

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM). (a) Fiscal deficit of the Central Government is dependent on the levels of tax and non-tax revenue, non-debt capital receipts and the level of total expenditure. Any unbudgeted reduction in taxes and duties is likely to adversely affect revenue collections budgeted for the year. The advalorem nature of duties may not fully offset the loss of revenue, in case of duty reductions to check inflation.

(b) The Government has been taking appropriate steps to check loss of revenue through improvements in compliance and expenditure management. The Government is committed to reduce the level of fiscal deficit to 3 per cent of Gross Domestic Product within a definite time frame as mandated by the Fiscal Responsibility and Budget Management Act, 2003.

(c) The International Monetary Fund (IMF) has been sharing its concern about the unsustainability of high fiscal deficits in India in its annual reviews. In its September, 2004 issue of World Economic Outlook, the IMF has emphasised that expenditure increases should be contingent on progress on the revenue front.

Cess on income tax from religious institutions

†492. SHRIMATI SAVITA SHARDA: Will the Minister of FINANCE be pleased to state:

(a) whether Government have any proposal to impose cess on the income from various religious institutions including temples to mobilize resources for poverty alleviation programmes;

(b) if so, the details thereof; and

(c) by when a final decision is likely to be taken in this regard?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) No, Madam.

(b) and (c) In view of (a) above, does not arise.

FDI in pension sector

493. SHRI B.J. PANDA: Will the Minister of FINANCE be please to state:

(a) whether it is a fact that Government are considering 100 per cent FDI in pension sector;

† Original notice of the question was received in Hindi.

(b) whether Government have laid down any terms and conditions for FDI entry in pension sector; and

(c) if so, the details thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) and (b) No, Sir.

(c) Do not arise.

Implementation of foreign aided projects in Gujarat

494. PROF. ALKA BALRAM KSHATRIYA: Will the Minister of FINANCE be pleased to state:

(a) the details of projects being implemented with the assistance of World Bank and Asian Development Bank in the State of Gujarat;

(b) the amount of financial assistance provided by these institutions, project-wise; and

(c) whether some projects are moving at slow pace and if so, the steps being taken to accelerate the work of these projects?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) and (b) The project-wise details of ongoing state sector projects funded by World Bank and Asian Development Bank in Gujarat are as follows:

Name of the Project (in US $ million)	Amount
World Bank	
1. Gujarat State Highway Project	350.0
2. Gujarat Earthquake Reconstruction Program	442.8
Asian Development Bank	
3. Gujarat Power Sector Project	122.5
4. Gujarat Earthquake Rehabilitation and Reconstruction Project	338.0

(c) Out of four projects, only one at S. No. 1 is a slow disbursement project. Government is closely monitoring the project to improve the disbursement.

Tax evasion

495. SHRI SANTOSH BAGRODIA: Will the Minister of FINANCE be pleased to state:

(a) the new steps initiated by Government to check tax evasion by individuals and the big companies;

(b) how Government propose to recover tax arrears in such cases;

(c) the reasons for the big tax arrear cases getting on multiplying every year; and

(d) whether any relaxation has been proposed to be given to the honest tax payers like salaried class?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) The Finance (No. 2) Act, 2004 has introduced certain provisions in the Income-Tax, 1961 with a view to check tax evasion by individuals and corporates as under:—

(i) Taxation of gifts of money (other than those received at the time of marriage) received from unrelated persons in excess of Rs. 25,000/-;

(ii) Tax deduction at source on compensation paid on compulsory acquisition of immovable properties (other than agricultural land);

(iii) Tax collection at source at the time of awarding contracts for parking lots and toll plazas, and granting lease in respect of mines and quarries; and

(iv) Provision for prosecution of persons who issue false bills, vouchers, etc. and make false entries in books with intent to enable any other person to evade tax.

(b) The Government effects recovery of tax arrears as per detailed procedure for recovery laid down-in the Income-tax Act, 1961 which includes steps like issue of notices, attachment of bank accounts and other movable assets, attachment and sale of immovable properties, etc.

(c) The main reasons for the big tax arear cases getting multiplied every year are one or more of the following:—

(i) Demands are stayed by Courts/Tribunals;

(ii) Cases are pending in Courts/Tribunals/Settlement Commission;

(iii) Cases are either under liquidation or are before the BIFR; and

(iv) Cases in respect of which persons and their assets are not traceable.

Since dispute resolution takes time, the arrears go on increasing.

(d) No such relaxation is under consideration at present.

Hawala transactions in Kerala

496. SHRI N.K. PREMACHANDRAN: Will the Minister of FINANCE be pleased to state:

(a) the number of banks involved in the hawala transactions inKerala, and the details thereof;

(b) whether the banks in Kerala played any positive role to help the illegal money transactions;

(c) whether the banks observed the relevant rules of RBI for opening accounts involved in hawala transactions; and

(d) whether the banks made any close watch over the huge withdrawal of money from their branches in Kerala and Tamil Nadu?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) to (d) Reserve Bank of India (RBI) has reported that forty branches of twelve banks were involved in the hawala transations in Kerala. The total numbers of accounts involved were 84. Scrutiny conducted by RBI in these cases did not reveal any fraud or scam by the banks. However, RBI has observed that banks had not followed the norms prescribed by RBI for opening of accounts and recording/reporting of large value cash transactions. The banks have not incurred any losses in these transactions. As per RBI guidelines, any large and suspicious cash transaction has to be reported to the Controlling Offices by the branches of the banks and these were not followed. RBI has advised banks to scrupulously follow the extant instructions while opening deposits accounts as well as handling large value cash transactions. RBI has also advised the banks to take appropriate action including criminal proceedings against their erring officials/constituents.

Waiver of interest on agricultural loan

497. SHRI C. RAMACHANDRAIAH: Will the Minister of FINANCE be pleased to state:

(a) whether it is fact that the government have announced a waiver of interest on agricultural loans in the drought- affected areas;

(b) if so, the details thereof; and

(c) whether the benefits has not yet been extended to farmers having Kisan Credit Cards?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) and (b) In view of the damage caused to crops by drought 2002, it was decided not to effect any recovery of the crop loans, including interest during the financial year 2002-03 in the States affected by the failure of the South-West monsoon. Accordingly, all scheduled commercial banks were advised that for Kharif 2002-03 following relief measures may be extended to the farmers affected by drought in the Districts notified by the State Governments.

1. No recovery of any amount either by way of principal or interest during the year 2002-03 in respect of Kharif crop loan.
2. The principal amount of crop loan be converted into term loan to be recovered over a period of minimum five years in the case of small and marginal farmers and four years in the case of other farmers.
3. Interest due on crop loans in the year 2002-03 be deferred. No interest should be charged on the deferred interest.

Subsequently, it was decided by the Government to waive first year deferred liability of interest on Kharif loan as one time measure. Commercial banks were advised to defer the interest due in the year 2002-03 on Kharif crop loans in such a way that the first instalment of interest payment would be 20% of the deferred interest.The instalment of deferred interest which is to be waived by banks as per Government announcement, would be reimbursed by Government of India.

(c) The interest waiver scheme covered short term loans given to farmers. No instructions were issued to the banks that benefit of the scheme may not be extended to farmers having Kisan Credit Card.

Review of SFCs operation

498. SHRI C. RAMACHANDRAIAH: Will the Minister of FINANCE be pleased to state:

(a) whether a review of the State Finance Commission's operations for 2000-2005 and the need for restructuring thereof was undertaken by the Gupta Commission;

(b) if so, the details of the recommendations made by the Commission for rejuvenating the SFCs and improving their performance;

(c) what decision has since been taken thereon indicating the steps recommended for improving the performance of SFCs;

(d) whether Government of Andhra Pradesh has made request for restricting the Andhra State Finance Commission;

(e) if so, the details thereof; and

(f) Government's response thereto?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) and (b) The G.P. Gupta Committee was set up for review and restructuring of State Finance Corporations (SFCs). The Committee has made recommendations for operational, financial and organizational restructuring of SFCs. The Committee has, *inter-alia,* recommended recapitalisation, amounting to Rs. 3,600 crore which can be shared by Central Government, Reserve Bank of India (RBI), Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), and State Gvoernments to be linked to reforms on the operations of SFCs. The details of other recommendations are given in the enclosed Statement (See below).

(c) The report has been sent to various SFCs for taking immediate action on recommendations relating to operational and organizational restructuring to improve performance of SFCs. Recognizing the role of SFCs in ensuring adequate flow of credit to SSI Sector, Government and SIDBI have formulated a package for revitalization and restructuring consisting of reliefs and concessions to SFCs. The concessions are: (a) reduction in rate of interest by 2% on all outstanding as well as future finance, (b) moratorium of one year for repayment of existing dues. As per conditions of the package, Memorandum of Undertaking (MoU) is to be signed by SFCs. So far, 9 SFCs, including Andhra Pradesh SFC, have entered into MoU with SIDBI.

(d) to (f) In February, 2003 Andhra Pradesh SFC approached the Government with the request for its restructuring. The request was basically for release of funds. The Government and RBI are not in a position to provide any further funds, as Government and RBI do not hold equity in SFCs.

Statement

The Committee has also made recommendations on several matters such as:

- SFCs should continue playing the role of credit/services provider to SSI sector
- SFCs needs to provide diversified products/services to ward off any untoward and adverse impact of a particular activity on the health of the SFCs.
- The maximum limit on accommodation per unit might be removed and the Boards of SFCs be authorised to fix exposure limits per unit, industry-wise, based on the prevailing and emerging industrial climate in the State.
- SIDBI, as at present, should continue to fill up the credit gaps and play supplementary and complementary role *vis-a-vis* SFCs.
- SFCs should take up more non-fund based activities.
- SFCs should completely re-design their business processes and enhance the corporate culture with pro-active client relationship approach.
- Installation of more efficient and effective risk assessment mechanism as wed as close monitoring of loan portfolios.
- To ensure continuity at MD's level, the power to appoint the MD may continue to vest in and be exercised by the State Government It should however, be invariably ensured that the services of MD-designate, be made on contract basis for a minimum fixed period of three eyars without any recourse to recall.
- To effectively guide the SFCs, the nominees of SIDBI, FIs and banks be drawn from a p sol of appropriately senior executives, preferably not below the rank of General Manager.
- SFCs to take a realistic assessment of their branch network treating each of them as "Profit Centre", besides looking at the

objective of providing the service with better geographical spread. Unviable branches must be closed without delay.

- Information/data to be computerized on an on-going basis.
- SIDBI should take steps to strengthen its internal monitoring and administrative mechanism with regard to SFCs.
- To overcome the delays in recoveries, the State Government may set up special courts for disposal of applications made under Section 32 of the SFCs Act, which might exclusively deal with recovery applications filed by SFCs.
- SIDBI should come out with OTS guidelines for SFCs, on the lines of guidelines issued by RBI on July 27,2000 to commercial banks, which would provide a simplified non-discretionary and non-discriminatory mechanism for recovery of their NPAs. SFCs should then not fight shy in implementing OTS vigorously.
- Each SFC should fix certain sectoral exposure limits. SFCs shouuld ensure that these do not exceed 5% of the fresh sanctions.
- Owing to special circumstances in which SFCs operate, guideilines for income recognition, provisioning and asset classification need to be different from those applicable to commercial banks.
- To improve poor cash management, SFCs need to invest cash balances profitably in short-term investments.
- For effective resource management, Asset Liability Management Committee (ALCO) to be formed in each SFCs to ensure that SFCs in future do not borrow short and lend long and thereby avoid asset liability mismatches.
- SFCs might be advised to immediately adopt uniform accounting standards.

Review of India development initiative

499. SHRI RAMA MUNI REDDY SIRIGIREDDY: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that Government have reviewed or are reviewing the India Development Initiative;

(b) whether Government are reviewing the above policy to attract more investment to India or to channel Indian assistance to other countries; and

(c) if so, the details thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) Yes, Sir.

(b) and (c) Review of India Development Initiative is being undertaken as part of normal ongoing process and no specific purpose can be attributed to it.

Rise in inflation

500. SHRI MAM. RAMASWAMY: Will the Minister of FINANCE be pleased to state:

(a) whether the inflation has reached an all time high in the country;

(b) if so, the reasons therefor;

(c) whether the Government propose to take specific measures such as reduction in excise levies and other tax adjustments with regard to consumer goods keeping in view the interests of poorer sections of the society;

(d) if so, the details thereof;

(e) if not, the reasons thereof; and

(f) The specific measures to be taken by the Government to contain inflation in the country?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) No, Sir. The annual inflation rate in terms of the Wholesale Price Index (WPI) reached a peak level at 8.7 per cent on August 28,2004 and subsequently declined to 7.3 per cent as on November 20,2004. The highest WPI inflation since 1950-51 was recorded in 1974-75 when it stood 25.2 per cent. Similarly, annual inflation in term of Consumer Price Index CPI, (IW) reached the highest level of 28.6 per cent in 1974. The CPI (IW) inflation rate in the current year 2004-05 remained between 2.2 and 4.8 per cent until October 2004.

(b) Does not arise.

(c) to (f) Containment of inflation remains high on the agenda of the government. Anti-inflationary polices of the government include strict fiscal and monetary discipline, rationalisation of excise and import duties of essential commodities so that there is no undue burden on the poor, effective supply-demand management of sensitive items through liberal tariff and trade policies, and strengthening the public distribution system. Specific measures taken by the government to contain inflation include the following: